

Message Text

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ACTION EA-10

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 8917

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

UNCLAS KUALA LUMPUR 0525

E.O. 11652: N/A

TAGS: EIND ID SN MY

SUBJECT: RUBBER: STOCKPILE SCHEME AND DIRECT BUYING BY GOM.

REF: (A) KL 0285 (B) KL 5951 (C) 5695

(D) KL 5678 (E) KL 5647

1. SUMMARY. INDONESIA, THAILAND, AND MALAYSIA EXPECTED MEET FEBRUARY 3 IN KUALA LUMPUR DISCUSS JOINT 350,000 TON NATURAL RUBBER STOCKPILE COSTING ABOUT U.S. \$200 MILLION. GOM SAYS DIRECT BUYING PROGRAM INITIATED BY GOVT INVOLVES ONLY 25 PER CENT TOTAL SMALLHOLDER PRODUCTION AND WILL NOT COMPETE WITH EXISTING CO-OPERATIVES OR BUYERS CONDUCTING THEIR OPERATIONS REASONABLY. END SUMMARY.

2. EXPERTS FROM INDONESIA, THAILAND, AND MALAYSIA EXPECTED MEET KUALA LUMPUR FEBRUARY 3 WORK OUT DETAILS FOR RUBBER STOCKPILE. ACCORDING PRESS REPORT, DATE HAS BEEN ACCEPTED BY INDONESIA WHILE CONFIRMATION AWAITED FROM THAILAND.

3. DETAILS OF SCHEME: GOM SUGGESTING STOCKPILE ABOUT 350,000 TONS, APPROX. TEN PER CENT WORLD PRODUCTION NATURAL RUBBER. AT CURRENT PRICES STOCKPILE WOULD COST APPROX. U.S. \$200 MILLION
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(M\$470 MILLION). STOCKPILE SHARES WOULD BE: MALAYSIA - 190,000 TONS: INDONESIA - 100,000 TONS, AND THAILAND - 60,000 TONS.

INITIALLY EACH COUNTRY WOULD BE EXPECTED FINANCE OWN SHARE OF STOCKPILE.

4. ASSOC. OF NATURAL RUBBER PRODUCING COUNTRIES (ANRPC), OF WHICH SINGAPORE, SRI LANKA, AND VIETNAM ALSO MEMBERS, WOULD ADMINISTER PROJECT OVER LONG-TERM.

5. REGARDING DIRECT PURCHASE OF RUBBER FROM SMALLHOLDERS (REFTEL B) PRIMARY INDUSTRIES MINISTER DATUK MUSA HITAM SAYS GOVT PROGRAM WILL NOT DRIVE DEALERS AND CO-OPERATIVE AGENCIES OUT OF BUSINESS. GOVT PROGRAM INVOLVES PURCHASE OF ONLY 25 PERCENT TOTAL SMALLHOLDER PRODUCTION TO BE CARRIED OUT OVER 12 MONTH PERIOD.

6. GOVT WILL NOT OPERATE WHERE SMALLHOLDER CO-OPERATIVES EXIST AND ARE INVOLVED IN BUYING FROM SMALLHOLDERS, WHERE DEALERS CO-OPERATIVES EXIST, AND WHERE INDIVIDUAL DEALERS HAVE BEEN OPERATING REASONABLY. GOVT IS OFFERING WORLD MARKET PRICES TO SMALLHOLDERS AND WILL NOT OUTBID DEALERS IF THEIR PRICES HIGHER.

7. COMMENT: GOM CONTINUES EMPHASIZE PUBLICLY AND PRIVATELY THAT RUBBER STOCKPILE SCHEME IS NOT OPEC - STYLE CARTEL ARRANGEMENT. ACCORDING GOM, TIN BUFFER STOCK OF INTERNATIONAL TIN COUNCIL IS CLOSEST ANALOGY TO RUBBER STOCKPILE SCHEME. REGARDING DIRECT PURCHASES BY GOVT FROM SMALLHOLDERS, LOCAL LANGUAGE PRESS REPORTS SOME PROBLEMS IN IMPLEMENTATION BECAUSE GOVT BUYERS VISIT AN AREA ABOUT ONCE A WEEK WHEREAS SMALLHOLDERS NEED INCOME ON DAY-TO-DAY BASIS. SMALLHOLDERS CANNOT AFFORD LUXURY OF STOCKPILING THEIR RUBBER OUTPUT FOR ONE WEEK AWAITING ARRIVAL GOVT BUYERS.
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